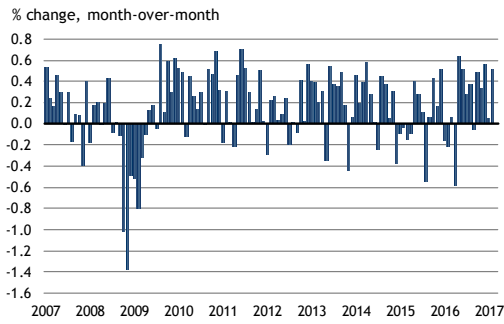


CURRENT TRENDS UPDATE – CANADA

Update - June 23, 2017

Overview and highlights

Real GDP



Source: Statistics Canada

- ▲ Canadian GDP jumped 3.7% in Q1 (at an annualized rate) to build on 2.7% and 4.2% increases in Q4 and Q3 of 2016, respectively.
- ▲ Employment jumped a much-stronger-than-expected 55k in May. Markets expected a 15k gain.
- ▲ The rise in April retail sale volumes is the ninth increase in the last ten months.
- ▲ Housing starts fell to 195k annualized units in May from 213k in April.
- ▲ The April merchandise trade balance stayed in deficit territory at -\$0.4 billion, although this represented an improvement from upwardly revised deficits the prior two months.
- ▲ The year-over-year rate of headline CPI inflation fell to a six-month low of 1.3% in May.

Strong and more ‘balanced’ growth in Canada in Q1

Latest available: March

Release date: May 31, 2017

Canadian GDP jumped 3.7% in Q1 (at an annualized rate) to build on 2.7% and 4.2% increases in Q4 and Q3 of 2016, respectively. Household spending remained strong (consumer spending up 4.3%, residential investment up 15.7%) but, unlike earlier quarters, business investment was also a significant support to Q1 growth. Monthly GDP rose a stronger-than-expected 0.5% in March, pointing to strong momentum through the end of the quarter. Strong economic growth in Canada is not really new. The 3.7% GDP jump in Q1 2017 marked a third consecutive gain above our estimate of the economy’s ‘potential’ long-run growth rate and a third consecutive outperformance relative to the U.S. Perhaps the most important takeaway from the Q1 numbers was a strong gain in business investment. The 10.3% annualized quarterly increase was the largest in almost 5 years and followed two years of persistent declines. Business investment has been a missing ingredient from earlier improvements which were driven largely by stronger household expenditures.

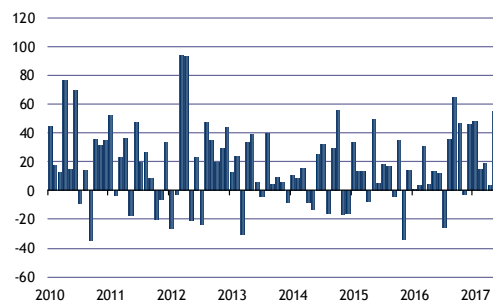
Economy at a glance

	Lastest month	% change from	
		Previous month	Year ago
Real GDP	Mar	0.5	3.2
Industrial production	Mar	1.1	5.4
Employment	May	0.3	1.8
Unemployment rate*	May	6.6	6.9
Manufacturing			
Production	Mar	1.6	3.7
Employment	May	1.5	1.9
Shipments	Apr	1.1	7.6
New orders	Apr	0.4	8.4
Inventories	Apr	0.9	5.6
Retail sales	Apr	0.8	7.0
Car sales	Apr	-7.0	-1.8
Housing starts (000s)*	May	194.6	187.0
Exports	Apr	1.8	14.7
Imports	Apr	0.6	7.4
Trade balance (\$billions)*	Apr	-0.4	-3.2
Consumer prices	May	0.1	1.3

* Levels are shown for the latest period and the same period a year earlier.

Employment

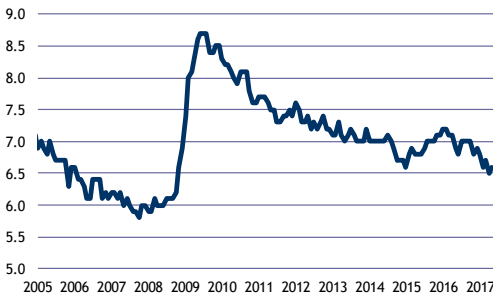
Change in thousands, month-over-month



Source: Statistics Canada

Unemployment rate

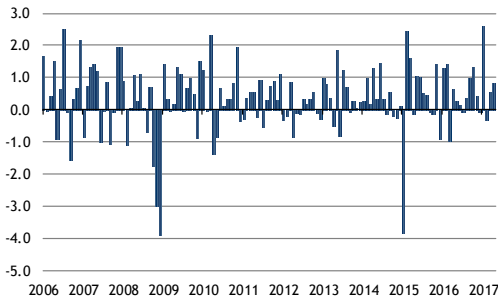
% of labour force



Source: Statistics Canada

Retail sales

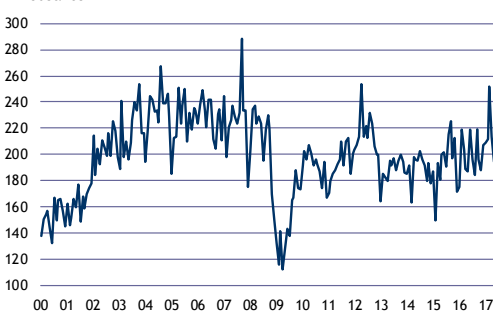
% change, month-over-month



Source: Statistics Canada

Housing starts

Thousands



Source: Canadian Mortgage and Housing Corporation

Canadian employment surged 55k higher in May

Latest available: May

Release date: June 9, 2017

Employment jumped a much-stronger-than-expected 55k in May. Markets expected a 15k gain. Full-time employment was up 77k to more-than-offset a 22k drop in part-time. The unemployment rate inched up to 6.6% from 6.5% in April as labour force participation rose. The jump in employment in May continued an unusually long streak of gains for a survey that is typically very volatile. The 55k surge in employment marked the 16th gain out of the last 18 months. Average growth over that period has been 21k. The unemployment rate ticked up to 6.6% from the cycle-low 6.5% in April but because of a jump in the labour force. Wages remain the soft-spot although annual growth in permanent employee wages rose to 1.0% from the all-time low 0.5% increase in April. Other wage measures have, though, been somewhat stronger.

Canadian Retail sales rise yet again in April

Latest available: April

Release date: June 22, 2017

The rise in April retail sale volumes is the ninth increase in the last ten months. Nominal retail sales rose 0.8% despite a 1.0% drop in motor vehicle and parts sales. Sales volumes rose but by a more modest 0.3% as higher prices accounted for much of the nominal increase. 'E-commerce' sales, not all of which are included in the headline retail sales numbers, surged 42% from a year ago in April and are up 40% year-to-date.

Canadian housing starts fell in May as a welcome cooling trend begins to set in

Latest available: May

Release date: June 8, 2017

Housing starts fell to 195k annualized units in May from 213k in April. Residential investment is set to be a small drag on growth in Q2 following a double digit gain in Q1. Ontario and Quebec recorded sizeable declines but were still higher year-to-date relative to 2016. The Prairies saw an increase in May as homebuilding activity continues to pick up from last year. Both single and multi-unit starts declined in May. On a trend basis, single unit starts edged down from a multi-year high while multis continued to pick up. Building permits edged down to 200k in April, and on a trend basis, narrowed the gap between permit issuance and starts. That implies less upside risk to starts going forward. Five months into 2017 and Canadian housing starts are still running at the strongest pace in five years, but it appears we are entering a cooling phase in the housing market that should see homebuilding activity moderate over the second half of the year.

Canadian trade balance posted a small deficit in April

Latest available: April

Release date: June 2, 2017

The April merchandise trade balance stayed in deficit territory at $-\$0.4$ billion, although this represented an improvement from upwardly revised deficits the prior two months. Nominal exports jumped 1.8% to build on a 3.2% March gain and outpace April's 0.6% import increase. Lumber exports declined but not enough to cause a decline in overall forestry product exports. It was probably too early for much of the impact of new U.S. softwood lumber tariffs implemented late in the month to show up with further declines possible going forward. Equipment import volumes rose reflecting a 4.2% jump in electrical equipment purchases.

Canadian inflation continued to slow in May

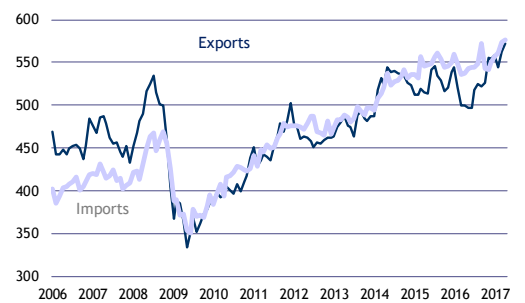
Latest available: May

Release date: June 23, 2017

The year-over-year rate of headline CPI inflation fell to a six-month low of 1.3% in May. Expectations were for a modest decline to 1.5% from April's 1.6% reading. Electricity prices fell in May as another round of rebates began rolling out in Ontario. Gasoline prices declined in the month with the year-over-year increase slipping to 6.8% from as high as 23% in February. Year-over-year inflation excluding food and energy prices fell for a fourth consecutive month, hitting three-year low of 1.4% in May. The BoC's three core measures averaged 1.3% after rounding, down from 1.4% in April and 2.0% a year ago. May's average is the lowest since 1999.

Merchandise trade

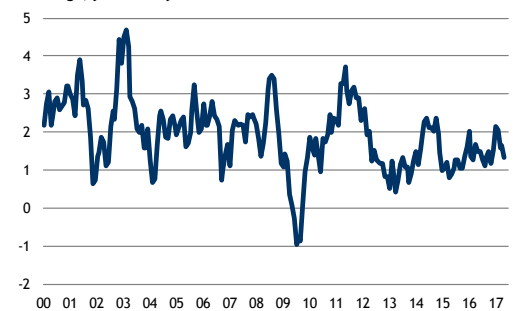
C\$ billions, annualized



Source: Statistics Canada

Consumer price index

% change, year-over-year



Source: Statistics Canada

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